

## RECOMMENDATIONS FOR IMPROVING TAXPAYER COMPLIANCE

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## Taxpayer's Concerns / Suggestions to Department

In accordance with the Taxpayer's Bill of Rights, the Indiana Department of Revenue conducted its Annual Public Hearing on Monday, June 22, 1998, in Indianapolis. State Revenue Commissioner Kenneth L. Miller presided. As in previous years, the hearing's announcement was contained in the IT-40 Individual Income Tax Booklet, and for the first time, was posted on the Department's Internet website. Taxpayers were provided the option of attending the hearing in person or submitting written comments and concerns.

The Department has reviewed the proposals provided by the taxpayers in attendance at the hearing and their suggestions are as follows:

**Distribution of Forms:** A participant in the Department's VITA/TCE (Volunteer Income Tax Assistance / Tax Counseling for the Elderly) Program complemented the Department on the improved tax forms and, in particular, the creation of the IT-40EZ. He suggested, however, that the Department add envelopes to its distribution since taxpayers sometimes take an entire booklet when they only need a return envelope. He also encouraged the Department to make available a Package X, a compilation of pertinent, camera-ready tax forms, which can be sent to libraries for taxpayers to photocopy. He also encouraged the Department to display signs at form distribution locations, such as libraries and post offices, that say "the tax forms and envelopes are for individual filers." He is concerned that tax preparers are taking advantage of the distribution sites to obtain free stockpiles of tax booklets for their businesses. The Department will review the need for envelopes and signs. Future plans call for the distribution of a Package X on CD-ROM for the upcoming tax season.

**Direct Deposits/ELF Filing:** Another individual at the hearing had several questions about delays in direct deposits of refund checks, which is only available if the individual income tax return was electronically filed. It was explained that the Department did not experience many difficulties during this tax season, which was the first year direct deposit was offered. Some suggestions were provided such as the refund is sometimes listed as a credit on a bank statement instead of as a deposit, or the deposit will be listed from the financial institution used by the Department in transmitting the money and not the state itself. Banks should be asked to go farther back into their records to look for a deposit, instead of simply reviewing the last two weeks of transactions.

**Processing Time:** One taxpayer wrote that he believed the Department took too long to process his IT-

40PNR return and mail his refund. He noted that at the time of his letter, he had already received his federal refund six weeks earlier. He was frustrated and felt like his rights were "blatantly abused." In researching this particular case, the Department acknowledges that the processing of IT-40PNRs was not as timely as in some tax seasons; however, the taxpayer in question was issued a refund in mid-May. The Department is committed to expeditious processing of refunds and believes taxpayers, for the most part, saw a much-improved tax season compared to the previous year. Furthermore as a safeguard for taxpayers, state statute requires interest to be paid on all refunds when the return is received prior to April 15 and the return is not processed prior to July 15.

**Homeowner's Deduction:** A taxpayer encouraged the state to implement a tax deduction similar to the renter's deduction for single homeowners with low income stating that she felt "penalized for owning a home, being poor and single." The Department would have to study the fiscal impact of this proposal but notes that the taxpayer, who acknowledges paying property tax and interest on her home loan, would be allowed to deduct those two items on her federal return. In turn, this lowers her federal adjusted gross income (AGI). Since the Indiana return starts with the federal AGI, those deductions would already be reflected for state tax purposes.

**Additional Exemption for Dependent Child:** One taxpayer drew attention to the definition of "dependent child" in reference to a new exemption of \$500 allowed on the 1997 individual income tax return. The taxpayer noted that she is the legal guardian of her grandchild, but could not take the extra exemption since the definition referred to a dependent child as "a son, stepson, daughter, and/or stepdaughter." The Department notes that the definition for dependent child for federal purposes, for purposes of the new exemption and for purposes for the earned income credit all differ. All are defined by statute and would require action by the Legislature.

**Interest Income:** A taxpayer wrote that interest income should not be taxed. The Department points out that Indiana mirrors the federal statutes and does, in fact, tax interest income. Any change would require approval by the Indiana General Assembly.

**E-Mail / Rounding of Dollar Amounts:** One final letter addressed two points. The first was the suggestion to include the Department's e-mail address in the instruction booklet. The other point concerned preprinting double zeros in all the cents columns on the

tax form to guarantee that taxpayers round each dollar amount. Though the specific e-mail address was not contained in the booklet, the Department did print and emphasize our Internet address. The website contains several opportunities for a taxpayer to contact the Department via e-mail and depending on which page of the website will direct the e-mail to the appropriate Revenue employee for a response. In regard to rounding, the Department encourages the taxpayer to round off the report amounts to the nearest dollar. Rounding can reduce mathematical errors, but it is not mandated by law.

### **Improvements In Taxpayer Communication And Education**

Statistics from the 1997 processing year revealed that 56% of paper documents received for processing at the Returns Processing Center were some form of a computer generated substitute. Additional statistics showed that more than 50% of all returns filed, including those electronically filed, were handled by professional tax preparers. With those statistics in hand, the department made a concerted effort to expand education and communication with professional tax preparers.

- The “Indiana Tax Dispatch”, a quarterly newsletter, was developed and is being distributed to over 4,500 professional tax preparers.
- An area of the Department’s Internet site was established as a “specialized resource” for tax practitioners. It contains items like special *News Flashes*, copies of the “Indiana Tax Dispatch”, and links to the Indiana Code.
- The Department and the Indiana District of the IRS held joint quarterly “Procedural and Administrative Workshops.” In fiscal year 1998, workshops were held in Southport, Lafayette, and Columbus.
- A toll-free “800” telephone number was established for tax practitioner’s to provide them with easier access to the Department when assisting their clients.

For the general public, the Department focused on education through the redesign of the 1997 IT-40 tax booklet and the creation of the IT-40EZ tax form. Instructions were further simplified and a special “New” logo was used to draw attention to new legislative and administrative changes on the form and in the instruction booklet.

The Department held its first ever “Media Day” at the Returns Processing Center on April 15, 1998. The goal of the event was to have media relay to the public the actual processing procedures of the Department and provide them with helpful hints for filing their returns.

Ongoing projects geared toward improving taxpayer communication and education include: Tax Practitioner Institutes; QFIT (Quality For Indiana Taxpayers) Annual Seminar; the Yes! (We have tax forms) Program; and the Speaker’s Bureau which coordinates speakers on tax topics for professional membership organizations and non-profits.

### **Increases In The Enforcement Capability Of The Department**

The Department’s Criminal Investigation Division conducts investigations of alleged violations of Indiana tax laws and secures necessary evidence to determine civil liabilities or to recommend criminal prosecution. In addition, this division works to enhance the overall agency efforts to collect and enforce those taxes falling under the administration of the Indiana Department of Revenue.

This division continues to enforce the program for fuel dyeing in the State of Indiana. In conjunction with the Indiana State Police, there have been several arrests made involving trucks using dyed fuel on the highways.

This division also monitors charity gaming operations throughout the state. During fiscal year 1998, the charity gaming activities of several not-for-profit organizations were investigated. As a result of these investigations, 18 not-for-profit organizations were assessed civil penalties for statute/rule violations and income tax assessments were imposed against the noncomplying organizations.

Other areas of monitoring and enforcement for this division include the Motor Vehicle Excise Tax, which collects the tax from Hoosiers who plated their vehicles outside of Indiana. This money is eventually returned to the county where the taxpayer legally resided.

## Improvements In Training Of Department Employees

### *The Personnel Division*

During the past year, the Personnel Division's Training Section taught 126 classes involving 2,448 Department of Revenue participants. These classes included the following core curriculum classes required for all of the more than 100 new employees hired this year: *ABC's of Discrimination*, *Basic Ethics*, *Customer Service*, *New Employee Orientation 101*, and *New Employee Orientation 102*. In addition, all Revenue employees attended a class on the **1997 Taxpayer Browsing Protection Act** and the Department's policies on security and confidentiality. Another 213 employees also attended the Department's *Preventing Violence In The Workplace* class.

Supervisor training was a major focus of the Training Section during the past year. Nine classes explaining the terms of the new AFSCME and UNITY labor settlements were attended by 179 supervisors and administrators. *The Myers-Briggs Type Inventory* was administered to 178 employees, mainly supervisors and administrators. 136 supervisors and administrators attended a class on progressive discipline, while another 58 supervisors attended the *Supervising Potentially Violent Employees* class. In addition, approximately 40 supervisors participated in a year-long seminar on supervision and leadership.

The Training Section also continued an active Training Advisory Council to address the Department's training needs; coordinated efforts with other State agencies to develop curricula and to jointly purchase materials; maintained an active membership in the State Training and Development Alliance; and administered the enrollment of Department employees in courses offered by State Personnel and other agencies or vendors. Plans for 1998-99 include revising the employee handbook, providing all employees the opportunity to take the *Myers-Briggs Type Indicator*, and continuing to enhance the already extensive employee orientation program established this year.

### *Employee Reclassifications*

In an effort to better serve Indiana taxpayers and to assure that employees' job responsibilities and compensation are in alignment with the State Personnel Department's job classification system, the Department of Revenue has undertaken the task of having employees complete job analysis questionnaires and evaluating those questionnaires. Upon review, an employee's position classification may be upgraded, revised, or unchanged. As of June 30, 1998, approximately 380

employees had completed the job analysis questionnaires. At the time this report was written, the vast majority of those questionnaires had been sent to the State Personnel Department for review and evaluation. Final action on those questionnaires is expected within the next few months.

### *Department's Annual Tax Conference*

The 1997 Annual Tax Conference was held October 8th and 9th. The annual conference is designed to provide Indiana Department of Revenue personnel with information relevant to the agency's latest developments and services, ongoing projects, as well as reviews current procedures for processing tax returns.

This main focus of this year's conference dealt with the individual income tax form/booklet revisions (including new legislation), the new Returns Processing System and the anticipated changes to the business tax return processing for the upcoming year. A total of 400 employees, representing all 16 departmental divisions, attended this year's conference.

### *Training Continues On Department's "Y2K-Compliant" Returns Processing System*

The Department's implementation of a new Returns Processing System, with Year 2000 compliance features, was a phenomenal task last year. During fiscal year 1998, the Department continued to train its employees on the functions of the system as new capabilities were added on to the system this year. At the close of fiscal year 1998, some 300 employees had participated in training on the handling of corporate tax and business tax licensing; last year, employees were trained on the system's functions for processing individual income tax returns.

### *Audit Division Training*

Regional seminars were presented to the in-state field auditors as a part of the Audit Division's Continuing Education Program at the end of 1997. Topics included sales and use taxes, automobile dealer licensing and leasing, electronic auditing, and charity gaming audits. The out-of-state auditors also attended a regional meeting in September 1997 that featured topics on financial institution tax, sales and use taxes, EDI (Electronic Data Interchange) audits and processing procedures.

Training was presented in January 1998 for newly-hired Special Tax auditors. They were trained on the use of computers when conducting audits, auditing techniques, tax law, and report writing. Following training, the new auditors accompanied experienced auditors out on assignment as a part of on-the-job training.